

worthless. Nothing could be further from the truth. As in Japan, the policy known as “quantitative easing” is far more likely to prove ineffective than lethal. It is a leaky hose, not a monetary Noah’s Flood.

So what is the Fed doing? Why is it doing it? Why are the criticisms ludicrous? What should the Fed be doing, instead?

The answer to the first is clear. As the Fed stated on November 3, “to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the [federal open market] committee decided today to expand its holdings of securities. The committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the committee intends to purchase a further \$600bn of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75bn per month.”

Ben Bernanke, the Fed chairman, gave the rationale in a speech last month. He pointed out that US unemployment is far above any reasonable estimate of equilibrium. Moreover, prospective economic growth makes it unlikely that this will change over the course of 2011. This is bad enough, but what makes it worse is that underlying inflation has fallen to close to 1 per cent, in spite of the expansion of the Fed’s balance sheet, over which so many tears were shed. Expectations of inflation are well anchored, he added, but that might change once deflation gripped. Given the slack, that might not be far away (see charts).

The Fed, added the chairman, has a dual mandate, to foster maximum employment and price stability. Doing nothing would be incompatible with this obligation. The only question is what is to be done. The answer is the proposed purchases of Treasury bonds. This simply extends classic open market operations up the yield curve. It would also only expand the Fed’s balance sheet by about a quarter, or around 4 per cent of gross domestic product. Is the US really on the same road as the Weimar Republic? In a word, no.

It is hardly a surprise that Wolfgang Schäuble, finance minister of Germany, thinks differently. He describes the US growth model as in “deep crisis”, adding that “it’s not right when the Americans accuse China of manipulating exchange rates and then push the dollar exchange rate lower by opening up the flood gates”. Presumably, he believes that, in a proper world, the US would be forced to follow the deflationary route imposed upon Greece and Ireland, instead. This is not going to happen. Nor should it.

Boiled down, the criticisms of the Fed come down to two: its policies are leading to hyperinflation; and they are “beggar my neighbour”, in consequence, if not intention.

The first of these criticisms is not just wrong, but weird. The essence of the contemporary monetary system is creation of money, out of nothing, by private banks’ often foolish lending. Why is such privatisation of a public function right and proper, but action by the central bank, to meet pressing public need, a road to catastrophe? When banks will not lend and the broad money supply is barely growing, that is just what it should be doing (see chart).

The hysterics then add that it is impossible to shrink the Fed’s balance sheet fast enough to prevent excessive monetary expansion. That is also nonsense. If the economy took off, nothing would be easier. Indeed, the Fed explained precisely what it would do in its monetary report to Congress last July. If the worst came to the worst, it could just raise reserve requirements. Since many of its critics believe in 100 per cent reserve banking, why should they object to a move in that direction?

Now turn to the argument that the Fed is deliberately weakening the dollar. Any moderately aware person knows that the Fed’s mandate does not include the external value of the dollar. Those governments that have piled up an extra \$6,800bn in foreign reserves since January 2000, much of it in dollars, are consenting adults. Not only did no one ask China, the foremost example, to add the huge sum of \$2,400bn to its reserves, but many strongly asked it not to do so.

It is also simply false to argue that the weakening dollar is due to Fed policies alone. Indeed, anyone with half a brain should realise that the US can no longer combine a large trade deficit with a manageable fiscal position. Those who want their US bonds to stay sound should welcome anything that helps the US expand domestic demand and rebalance its external position. Current US monetary policies are, contrary to Mr Schäuble’s views, simply the yang to the yin of east Asian mercantilism.

More fundamentally, market forces, not monetary policy, are pushing global rebalancing, as the private sector tries to put its money where it sees the opportunities. The Fed’s monetary policies merely add a twist. Instead of all the futile bleating, what was needed was a co-ordinated appreciation of the currencies of the emerging economies. The fault here does not lie with the US. I sympathise strongly with a Brazil or a South Africa, but not with China.

The sky is not falling. But this does not mean the Fed’s policies are the best possible. It is probable that any impact on the yields on medium-term bonds will have a modest economic effect. It would be far better if the Fed could shift inflation expectations upwards, by issuing a commitment to offset a prolonged period of below-target inflation with one of above-target inflation. A decision to monetise additional government spending might be an even more effective tool. Equally necessary is a plan to accelerate the restructuring of the overhang of excessive debt. But, in the absence of co-operation with the newly elected Congress, what the Fed is doing is, alas, about the most we can now expect, though it should have dared to do more. Meanwhile, “sound” people will shriek that the sky is falling only to be surprised that it is not. We have seen this play before—in Japan in the 1990s. Japan fell into chronic deflation, instead.

Yes, it may be reasonable to call for a reconsideration of the global monetary system, as Robert Zoellick, the World Bank president, has done. But gold? Does anyone expect politicians to put placating the world’s most speculative commodity market before worrying about a slump? Whom the gods wish to destroy they first make mad.

TRIBUTE ON THE BIRTH OF DANIEL BOLDEN GILCHRIST

HON. JOE WILSON

OF SOUTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

Monday, November 15, 2010

Mr. WILSON of South Carolina. Madam Speaker, I am happy to congratulate Stephen Gilchrist and his wife Tammie on the birth of their new son Daniel Bolden Gilchrist. Daniel was born on October 22, 2010, at 10:26 in the evening.

I am so excited for this new blessing to the Gilchrist family and wish them all the best.

IN HONOR AND REMEMBRANCE OF
UNITED STATES ARMY PRIVATE
FIRST CLASS JAMES C. KONYUD

HON. DENNIS J. KUCINICH

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Monday, November 15, 2010

Mr. KUCINICH. Madam Speaker, I rise today in honor and remembrance of United States Army Private First Class James C. Konyud, who courageously and selflessly rose to the call to duty and made the ultimate sacrifice in service to his country.

Pfc. Konyud was drafted into the U.S. Army and became a member of the 121st Infantry Regiment, 8th Infantry Division-K Company. In 1943, he was twenty-six years old when he travelled from Cleveland, Ohio to Germany during World War II. Two years later, after heavy combat in the Huertgen Forest in Germany, near Belgium, Pfc. Konyud was reported missing in action. He was declared dead one year later. Pfc. Konyud’s remains, including his military identification tags, were finally located three years ago by a German explosive-ordnance team working near the Belgian border where he was last seen. American POW/MIA Command Teams were dispatched to Germany, and with the help of local farmers, discovered military equipment and a second set of Pfc. Konyud’s identification tags. Sixty-seven years after travelling to Europe to serve our nation, Pfc. Konyud was finally flown home.

George Konyud, the youngest of nine brothers and sisters and Pfc. Konyud’s only surviving sibling, gathered with family members and more than one hundred mourners on Saturday, September 25th at Calvary Cemetery in Cleveland, Ohio, to pay their final respects and to honor the life and sacrifice of Pfc. James Konyud. He was buried with full military honors.

Madam Speaker, and colleagues, please join me in honor and remembrance of U.S. Army Private First Class James Konyud, whose service to our nation will be forever honored and remembered. Although sixty-seven years have passed, the memory of Pfc. Konyud will continue to live on within the hearts and memories of our entire community.

IN RECOGNITION OF CHARLOTTE
AYERS

HON. TOM PRICE

OF GEORGIA

IN THE HOUSE OF REPRESENTATIVES

Monday, November 15, 2010

Mr. PRICE of Georgia. Madam Speaker, I would like to congratulate Charlotte Ayers on her outstanding tenure as the Chief Executive Officer of the Georgia’s Own Credit Union. After 41 years of service, and 11 years at the helm, Mrs. Ayers is retiring from Georgia’s Own Credit Union.

When Charlotte Ayers became President and CEO of Georgia’s Own Credit Union in 1999, she pledged that the Credit Union would be a beacon of social and personal responsibility, and vowed it would be the industry leader in terms of growth and service. Mrs. Ayers has fulfilled that promise to the firm’s members and employees, and she is credited with